

Message Text

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INFO OCT-01 ADP-00 RSR-01 CIAE-00 DODE-00 PM-07 H-02

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INFO AMEMBASSY BELGRADE

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TAGS: EGEN, ETRD, ENRG, GE

SUBJECT: GDR ECONOMY IN MID-1973: PROGRESS AND PROSPECTS

REF: A. BERLIN 974

B. BERLIN 524

C. BERLIN A-31

D. BONN A-83

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1. SUMMARY. DESPITE INSTITUTIONAL AND MATERIAL FETTERS, GDR ECONOMY HAS MANAGED TO REACH RELATIVELY HIGH PLATEAU OF ACHIEVEMENT. TO ASSURE FURTHER SATISFACTORY GROWTH, THE GDR PROBABLY WILL STRIVE TO BALANCE OBJECTIVE OF INCREASING CURRENT CONSUMPTION AGAINST REQUIREMENT TO INVEST FOR FUTURE EXPANSION. IN VIEW OF TIGHT DOMESTIC RESOURCES, GDR SEEMS LIKELY TO SEEK TO FURTHER SOME OF ITS GOALS THROUGH GROWTH OF IMPORT- LED TRADE AND EXPANDED ECONOMIC ARRANGEMENTS WITH FOREIGN COUNTRIES. WHILE EMPHASIS WILL CONTINUE TO BE PLACED ON ECONOMIC TIES TO CEMA PARTNERS, IZT WILL PROBABLY ALSO PLAY IMPORTANT ROLE. IF SOVIET UNION AND FRG ARE UNABLE TO SATISFY GDR REQUIREMENTS, GDR ECONOMIC RELATIONS WITH OTHER WESTERN COUNTRIES MAY EXPAND MORE THAN GENERALLY ANTICIPATED. END SUMMARY.

2. AS GDR ROUNDS OUTS ITS FIRST QUARTER CENTURY, IT HAS RELATIVELY IMPRESSIVE ECONOMIC ACHIEVEMENTS TO ITS CREDIT. DIVERSIFIED INDUSTRIAL SECTOR IS EFFICIENT BY EE STANDARDS. CAPITAL INTENSIVE AGRICULTURAL SECTOR, EMPLOYING BUT ONE- EIGHTH OF TOTAL LABOR FORCE, PROVIDES APPROXIMATELY 80 PERCENT OF GDR FOODSTUFF REQUIREMENTS. ACCORDING TO ONE INDICATOR OF OVERALL ECONOMIC WELL- BEING, GNP PER CAPITA, GDR IS MOST ADVANCED COUNTRY IN EE. ACCOMPLISHMENT OF GDR ECONOMIC PERFORMANCE ALSO EVIDENT FROM COMPARISON OF ITS GNP PER CAPITA TO THOSE OF EUROPEAN OECD MEMBERS. WHILE DIFFERENCE BETWEEN GDR AND MOST ADVANCED WESTERN EUROPEAN COUNTRIES, PARTICULARLY FRG, UK AND SCANDINAVIANS, IS SUBSTANTIAL, GDR COMPARES WELL WITH WE COUNTRIES THAT ARE LESS ADVANCED OR HAVE SIGNIFICANT INTERNAL DISPARITIES, E. G. AUSTRIA AND ITALY.

3. GDR' S CLOSE ECONOMIC LINKS WITH CEMA COUNTRIES REFLECT EXISTING POLITICAL AND ECONOMIC REALITIES. ACCORDING TO GDR STATISTICS, ALMOST 70 PERCENT OF TOTAL TRADE IS WITH THIS BLOC AND MORE THAN HALF OF THAT AMOUNT IS WITH SOVIET UNION. GDR PARTICIPATION IN CEMA ECONOMIC INTEGRATION PROJECTS, A RELATIVELY RECENT DEVELOPMENT, IS BEGINNING TO BEAR FRUIT. GDR TRADE WITH INDUSTRIALIZED WEST IS ABOUT A QUARTER OF ITS TOTAL TRADE AND 40 PERCENT OF THIS IS WITH FRG, REFLECTING BENEFITS CONFERRED BY INNER- GERMAN TRADE (IZT) ARRANGEMENT AND OTHER FAVORABLE LIMITED OFFICIAL USE

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FACTORS (COMMON LANGUAGE, PROXIMITY, ETC.).

4. BLOC POLITICAL AND ECONOMIC REQUIREMENTS AND GDR' S INHERENT ECONOMIC ASSETS AND LIABILITIES HAVE BEEN MAJOR DETERMINANTS OF GDR ECONOMIC POLITY. GDR HAS BEEN FULFILLING ITS ROLE AS A CAPTIVE SUPPLIER OF CAPITAL GOODS AND FINISHED PRODUCTS OF ITS CEMA PARTNERS. ALTHOUGH GDR

HAS VALUABLE ECONOMIC ASSETS IN ITS EDUCATED, SKILLED AND INDUSTRIOUS LABOR FORCE, AND A TRADITION OF EXCELLENCE IN CERTAIN INDUSTRIAL BRANCHES (PRIMARILY OPTICS, FINE MECHANICS, PRINTING AND TEXTILE MACHINER) SCARCITY OF LABOR AND ABSENCE OF INDIGENOUS RAW MATERIALS BASE HAS PLAGUED ECONOMY FROM ITS INCEPTION. IN ADDITION, A HIGHLY CENTRALIZED PLANNED ECONOMIC SYSTEM, OFTEN INSENSITIVE TO CONSIDERATIONS OF DEMAND AND COMPARATIVE ADVANTAGE, HAS ON OCCASION FORCED DEVELOPMENT OF SOME INEFFICIENT INDUSTRIAL BRANCHES. WHILE GDR HAS HAD ACCESS TO SOVIET RAW MATERIALS, BENEFITS DERIVED HAVE TO SOME EXTENT BEEN COUNTERBALANCED BY ADVERSE (TO GDR) TERMS OF TRADE CHARACTERIZING SOVIET/ GDR COMMERCE AND BY NECESSITY OF GDR' S ACCEPTANCE OF GENERALLY INFERIOR GOODS FROM ITS CEMA PARTNERS IN RETURN FOR ITS FINISHED PRODUCTS.

5. AFTER SOME TWO TO THREE YEARS OF ECONOMIC CONSOLIDATION NEEDED TO RECOVER FROM ECONOMIC MISMANAGEMENT AND OVER-AMBITIOUS GOALS OF ULBRICHT' S LAST YEARS, THERE ARE INDICATIONS THAT GDR IS NOW PREPARED TO ACCEPT SOMEWHAT HIGHER CONSUMPTION SO LONG AS THIS DOES NOT HAVE A SIGNIFICANTLY ADVERSE EFFECT ON LEVEL OF INVESTMENT. PARTLY ON BASIS OF ECONOMIC PROGRESS MADE IN 1972, GDR PLANNERS APPARENTLY BELIEVED THAT INTERNAL CONDITION WOULD BE PROPITIOUS IN 1973 FOR ACCELERATED ECONOMIC PERFORMANCE. AS A RESULT, GOALS FOR 1973 ARE GENERALLY HIGHER THAN IN PREVIOUS TWO YEARS IN SEEMINGLY BELATED EFFORT TO FULFILL OBJECTIVES OF CURRENT FIVE YEAR PLAN.

6. IT IS DOUBTFUL, HOWEVER, THAT ESSENTIAL PRECONDITIONS FOR ACCELERATED GROWTH IN FACT EXIST. BUILT IN LIABILITIES OF ECONOMY REMAIN. THERE HAS NOT BEEN SUFFICIENT TIME TO KLEIN

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ASSURE TRANSITION TO A SMOOTHER, MORE BALANCED AND SUSTAINED GROWTH. INFRASTRUCTURE WEAKNESSES CONTINUE, PARTICULARLY IN ENERGY SECTOR WHERE DEMAND CONTINUES TO OUTRUN EXPANDING SUPPLY. SHORTAGES AND/ OR INADEQUATE INVENTORIES OF RAW MATERIALS, SEMI- MANUFACTURES, SUB- ASEMBLIES AND SPARE PARTS REMAIN. JUDGING FROM REPETITIVE ARTICLES IN GDR PRESS, INSTITUTIONAL AND ORGANIZATIONAL PROBLEMS PERSIST. IN VIEW STAGNANT MANPOWER AND SMALL INCREMENTS TO STOCK OF CAPITAL, ECONOMIC GROWTH IS TO BE DERIVED PRIMARILY LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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FROM INCREASE IN LABOR PRODUCTIVITY. BUT WHETHER PRODUCTIVITY WILL RISE SUFFICIENTLY TO ENSURE SATISFACTORY AND SUSTAINED GROWTH IS QUESTIONABLE.

7. IF ONLY LITTLE ADDITIONAL IN WAY OF PRODUCTIVITY CAN BE SQUEEZED OUT OF GDR'S EXISTING LABOR AND MATERIAL RESOURCES, WHICH NOW SEEM TO CONTAIN VERY LIMITED RESERVES, WHERE IS IMPETUS FOR CONTINUED ECONOMIC GROWTH TO COME FROM? PLAN FOR 1973 INDICATES THAT PROJECTED CLAIMS ON GROSS NATIONAL PRODUCT MAY BE CONSIDERABLY IN EXCESS OF WHAT GDR ECONOMY ITSELF WILL PRODUCE THIS YEAR. IMPLICATION IS, THEREFORE, THAT GDR WILL RUN A TRADE DEFICIT. PLAN PROVIDED NO DETAILS BUT, IN SUBMITTING PLAN LEGISLATION TO VOLKSKAMMER IN LATER 1972, STOPH NOTED THAT IN SHORT- RUN GDR WOULD CONTINUE TO BE DEPENDENT ON SIZEABLE IMPORTS OF BOTH RAW MATERIALS AND PRODUCER AND CONSUMER GOODS.

8. TWO EXTERNAL PROPS OF GDR ECONOMY HAVE BEEN ACCESS TO INDISPENSIBLE SOVIET RAW MATERIALS AND FUEL SUPPLIES AND TO ADVANCED WESTERN TECHNOLOGY ON FAVORABLE TERMS THROUGH IZT CHANNELS. THESE INGREDIENTS PERMITTED RESPECTABLE GDR ECONOMIC GROWTH IN PAST. IN FUTURE, GREATER INFUSIONS OF SUCH BASIC COMMODITIES AND PRODUCER GOODS WILL BE NECESSARY IF LARGER, MORE DEPENDENT GDR ECONOMY IS TO ACHIEVE SATISFACTORY GROWTH. TO EXTENT THAT SOVIETS AND FRG NOT ABLE AND/ OR WILLING PROVIDE INCREMENTAL RESOURCES, SUPPLEMENTAL SOURCES OF SUPPLY WILL BE SOUGHT BY GDR.

9. ABILITY OF USSR TO MEET GDR'S GROWING ESSENTIAL RAW MATERIALS AND FUEL REQUIREMENTS IS NOT AUTOMATICALLY ASSURED, ESPECIALLY IN LIGHT OF ROLE THESE COMMODITIES ARE EXPECTED TO PLAY IN SOVIET- WESTERN ECONOMIC EXCHANGES. AND, INDEED, RELATIVE IMPORTANCE TO USSR OF TRADING RELATIONSHIP WITH GDR APPEARS TO HAVE DECLINED DURING PAST DECADE: SHARE OF GDR- SOVIET BILATERAL TRADE FELL FROM ALMOST 50 PERCENT OF GDR TOTAL TRADE TURNOVER IN 1962 TO LESS THAN 40 PERCENT IN 1972. IN ANY EVENT, REAL COST TO GDR OF SOVIET SUPPLIES OF FUELS AND RAW MATERIALS WILL INCREASE DUE TO HIGHER WORLD PRICES AND APPARENT NEED FOR GDR TO MAKE PREPAYMENT FOR SUCH SUPPLIES IN FORM OF LIMITED OFFICIAL USE
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INVESTMENTS IN USSR (PARA 4, REF A).

10. NEW EXTERNAL IMPETUS FOR EAST GERMAN ECONOMIC GROWTH AND ADDITIONAL FLEXIBILITY FOR GDR PLANNERS COULD COME FROM CEMA INTEGRATION EFFORTS. SED LEADERSHIP SUPPORTS IN PARTICULAR THOSE CEMA SPECIALIZATION PROJECTS, PRIMARILY OF VERTICAL INDUSTRIAL INTEGRATION VARIETY, THAT ATTEMPT TO REALIZE A BETTER DIVISION OF LABOR AND ECONOMIES OF SCALE. THESE EFFORTS, IF SUCCESSFUL, ANTICIPATE THE RELEASE OF RESOURCES WHICH COULD THEN BE ALLOCATED TO THOSE EAST GERMAN INDUSTRIAL BRANCHES HAVING A COMPARATIVE ADVANTAGE. GDR EXPECTATION IS THAT INCREASED OUTPUT OF THESE SECTORS WOULD CONTRIBUTE TO COVERING COST OF NEEDED IMPORTS FROM BOTH EAST AND WEST.

1. IN TRADE- RELATED ECONOMIC ACTIVITIES WITH WEST, GDR AT PRESENT IS CONCENTRATING ON OBTAINING WHAT BENEFITS IT CAN, BOTH TECHNOLOGICAL AND FINANCIAL, THROUGH CONCLUSION OF LICENSING ARRANGEMENTS (REF C). BUT GDR IS RELUCTANT, PRESUMABLY IN PART FOR POLITICAL REASONS, TO ENTER INTO NON- CEMA JOINT VENTURE AND COOPERATION ARRANGMENTS. THIS POSITION MAY CHANGE WITH TIME, HOWEVER, IF IT SHOULD DEVELOP THAT CONVENTIONAL COMMODITY TRADE PLUS LICENSING ARRANGEMENTS ARE INSUFFICIENT TO COPE WITH PRESSING PROBLEM OF MODERNIZING GDR ECONOMY.

12. IZT AS A PERCENTAGE OF TOTAL GDR TRADE HAS REMAINED
RELATIVELY STABLE OVER LAST SEVERAL YEARS. ITS FUTURE
DEVELOPMENT MAY BE SOMEWHAT UNCERTAIN DUE TO A NUMBER OF
PROBLEMS (REF D), BUT BOTH PARTIES ARE CLEARLY INTERESTED
IN ITS CONTINUANCE. WHILE GDR HAS BEEN WARY (PARA 7,
REF A) OF FRG' S " NEW CONCEPT" FOR IZT, SPECIFICALLY A
RESTRUCTURING OF TRADING RELATIONSHIP AND POSSIBLY JOINT
PROJECTS IN ENERGY SECTOR (REF B), IT HAS NOT BEEN EXPLI-
ITLY NEGATIVE ON FRG PROPOSALS. IN FACT, RECENT GDR
PROPOSAL TO BERLIN SENAT THAT A PIPELINE FOR PETROLEUM
PRODUCTS BE CONSTRUCTED BETWEEN SCHWEDT AND WEST BERLIN
MIGHT FORESHADOW POSSIBLE GDR WILLINGNESS TO ACT FAVOR-
ABLY ON OTHER ELEMENTS OF FRG PACKAGE IN HOPE OF A
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